

Message Text

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15

ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 NEA-10 IO-14 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 XMB-07

OPIC-12 SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07

SS-20 STR-08 CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15

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R 020846Z APR 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 2408

INFO AMEMBASSY VIENTIANE

AMEMBASSY WELLINGTON

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 5/31/74

TAGS: EAID, EFIN

SUBJ: COST OVERRUNS IN BANK'S CONSULTANTS CONTRACTS
OWING TO CURRENCY FLUCTUATIONS

SUMMARY: ADB MANAGEMENT PROPOSES THAT BANK MAKE AVAIL-
ABLE, ON GRANT BASIS, \$1500 TO MEET EXCESS COST OF
CONSULTANTS' SERVICES FOR WESTERN SAMOA POWER PROJECT
AND \$62,000 TO MEET EXCESS COST OF CONSULTANTS' SERVICES
FOR THA NGON AGRICULTURAL DEVELOPMENT PROJECT. IN
BOTH OF THESE TECHNICAL ASSISTANCE (TA) PROJECTS, COST
OVERRUNS WERE DUE TO CURRENCY FLUCTUATIONS. CONTRACTS
BETWEEN BANK AND CONSULTANTS CONTAIN CLAUSE REQUIRING
BANK AND CONSULTANT TO TAKE CERTAIN ACTION INTENDED TO
MAINTAIN AMOUNT OF REMUNERATION AT LEVEL EQUAL TO WHAT
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CONSULTANT EXPECTED TO RECEIVE IN TERMS OF HIS NATIONAL

CURRENCY AT TIME CONTRACT SIGNED. USADB RECOMMENDS FAVORABLE NAC CONSIDERATIONS.

1. ADB DOC R30-74 ON ABOVE SUBJECT POUCHED ADDRESSEES MARCH 28. TENTATIVELY SCHEDULED FOR BOARD CONSIDERATION APRIL 18 BUT MAY BE POSTPONED UNTIL AFTER ANNUAL MEETING.

2. WHILE CEILING AMOUNT OF CONTRACTS FOR CONSULTANT SERVICES UNDER ADB'S TECHNICAL ASSISTANCE OPERATIONS IS DENOMINATED IN U.S. DOLLARS, REMUNERATION IS USUALLY MADE PAYABLE IN CONSULTANTS' NATIONAL CURRENCY. AS RESULT OF CURRENCY REALIGNMENTS, COST OVERRUNS HAVE BEEN INCURRED IN TWO CONTRACTS. BOTH CONTRACTS CONTAIN CLAUSE REQUIRING BANK AND CONSULTANT TO TAKE CERTAIN ACTION TO MAINTAIN AMOUNT OF REMUNERATION AT LEVEL EQUAL TO WHAT CONSULTANT EXPECTED TO RECEIVE IN TERMS OF HIS NATIONAL CURRENCY AT TIME OF CONTRACT SIGNING. FOLLOWING TWO CONTRACTS ARE INVOLVED:

A. BOARD APPROVED TA GRANT OF \$64,000 ON MARCH 16, 1971 FOR WESTERN SAMOA POWER SUPPLY PROJECT. ITALIAN FIRM (ELC ELECTROCONSULT SPA) SELECTED FOR CONSULTING SERVICES. PROJECT COMPLETED. SINCE PAYMENT CALLED FOR IN ITALIAN LIRE AND IN VIEW SUBSEQUENT CHANGE IN EXCHANGE RATE, IT WAS AGREED DURING CONSULTATIONS THAT ADDITIONAL AMOUNT OF LIRE EQUIVALENT TO \$1,460.26, SAY \$1,500.00 WOULD BE PAID TO CONSULTANTS TO MAINTAIN VALUE OF REMUNERATION PORTION OF CONTRACT.

B. IN MARCH 1970 BOARD APPROVED SPECIAL FUNDS LOAN OF \$0.973 MILLION AND \$275,000 TA GRANT FOR CONSULTING SERVICES FOR THA NGON AGRICULTURAL DEVELOPMENT PROJECT IN LAOS. NIPPON KOEI CO., LTD. (JAPAN) WAS AWARDED CONSULTING SERVICES CONTRACT. PROJECT SCHEDULED FOR COMPLETION JULY 1974. (ALTHOUGH INITIALLY CONSTRUCTION COMPLETION WAS PROGRAMMED FOR JULY 1973, BANK DOCUMENT STATES CONSULTANT COULD HAVE COMPLETED SERVICES WITHIN CONTRACT CEILING AMOUNT HAD EXCHANGE RATE CHANGES NOT TAKEN PLACE.) AS RESULT OF CONSULTATIONS, \$46,500 HAS BEEN ESTABLISHED AS ADDITIONAL AMOUNT LIKELY TO BE REQUIRED TO COMPLETE SERVICES. HOWEVER, TO COVER ANY POSSIBLE FURTHER DELAYS, \$15,000 CONTINGENCY IS CONSIDERED PRUDENT, RESULTING IN LIMITED OFFICIAL USE

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TOTAL ADDITIONAL AMOUNT OF \$62,000.

3. BANK MANAGEMENT RECOMMENDS THAT ADDITIONAL AMOUNTS OF \$1500 AND \$62,000, RESPECTIVELY, BE MADE AVAILABLE, ON GRANT BASIS, FOR WESTERN SAMOA POWER AND THA NGON AGRICULTURAL DEVELOPMENT PROJECTS. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC CONSIDERATION. SULLIVAN

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